

27 3. For Internet root infrastructure providers, as defined in § 58.1-422.5, sales of services are in the
28 Commonwealth if they are derived from sales transactions with a customer or client who receives the
29 benefit of the services in the Commonwealth. Such rule shall apply regardless of the location of an Internet
30 root infrastructure provider's operations.

31 C. The taxes under this article on the sales described under subsection B are imposed to the
32 maximum extent permitted under the Constitutions of Virginia and the United States and federal law. For
33 the collection of such taxes on such sales, it is the intent of the General Assembly that the Tax
34 Commissioner and the Department assert the taxpayer's nexus with the Commonwealth to the maximum
35 extent permitted under the Constitutions of Virginia and the United States and federal law.

36 D. If necessary information is not available to the taxpayer to determine whether a sale other than
37 a sale of tangible personal property is in the Commonwealth pursuant to the provisions of subsections B
38 and C, the taxpayer may estimate the dollar value or portion of such sale in the Commonwealth, provided
39 that the taxpayer can demonstrate to the satisfaction of the Tax Commissioner that (i) the estimate has
40 been undertaken in good faith, (ii) the estimate is a reasonable approximation of the dollar value or portion
41 of such sale in the Commonwealth, and (iii) in using an estimate the taxpayer did not have as a principal
42 purpose the avoidance of any tax due under this article. The Department may implement procedures for
43 obtaining its approval to use an estimate. The Department shall adopt remedies and corrective procedures
44 for cases in which the Department has determined that the sourcing rules for sales other than sales of
45 tangible personal property have been abused by the taxpayer, which may include reliance on the location
46 of income-producing activity and direct costs of performance as described in subsection A.

47 **§ 58.1-422.5. Internet root infrastructure providers.**

48 A. As used in this section:

49 "Authority" means the Virginia Innovation Partnership Authority.

50 "Eligible planning district" means Planning District 8.

51 "Internet root infrastructure provider" means an entity and its affiliated entities that is designated
52 to operate one or more of the 13 Internet root servers of the Internet Assigned Names Authority (IANA)

53 root and functions as the authoritative directory for one or more Top-Level Domains. This term does not
54 include an Internet service provider, cable service provider, or similar company.

55 "Internet root server of the IANA root" means a Domain Name System server for one of the 13
56 root identities (A. - M.) that answers requests for the Domain Name System root zone of the Internet,
57 redirecting requests for each Top-Level Domain to its respective nameservers.

58 "Memorandum of understanding" means a performance agreement or related document entered
59 into by an Internet root infrastructure provider and the Authority on or after January 1, 2023, but before
60 December 1, 2023, that sets forth the requirements for commitments and investments, to include creation
61 of a fund in the amount of \$10,000,000 to support the growth and expansion throughout Virginia of the
62 Commonwealth's technology-based economy.

63 B. 1. For taxable years beginning on or after January 1, 2023, but before January 1, 2030, an
64 Internet root infrastructure provider shall be subject to the provisions of subdivision B 3 of § 58.1-416
65 only if the Authority certifies to the Department that the taxpayer has at least 500 full-time employees
66 with an average annual salary of \$175,000 in an eligible planning district, has entered into a memorandum
67 of understanding with the Authority, and has met the terms of such agreement.

68 2. For taxable years beginning on or after January 1, 2030, if the Authority certifies to the
69 Department that all requirements of the memorandum of understanding have been satisfied, no additional
70 certifications shall be required, and the Internet root infrastructure provider shall continue to be subject to
71 the provisions of subdivision B 3 of § 58.1-416 in future taxable years.

72 C. The General Assembly finds that the presence of the Internet root infrastructure provider
73 industry is essential to the continued fiscal health of the Commonwealth. If any provision of this section
74 is for any reason held to be invalid or unconstitutional by the decision of a court of competent jurisdiction,
75 that provision shall not be deemed severable.

76 **2. That the Department of Taxation shall develop and make publicly available guidelines**
77 **implementing the provisions of this act. In developing such guidelines, the Department of Taxation**
78 **shall not be subject to the provisions of the Administrative Process Act (§ 2.2-4000 et seq. of the**
79 **Code of Virginia) for guidelines promulgated on or before December 31, 2023, but shall cooperate**

80 with and seek the counsel of interested groups and shall not promulgate any guidelines, preliminary
81 or final, without first seeking such counsel and conducting a public hearing. Preliminary guidelines
82 shall be promulgated and made publicly available no later than December 31, 2023, and final
83 guidelines shall be promulgated and made publicly available no later than December 31, 2024. After
84 December 31, 2024, the guidelines shall be subject to the Administrative Process Act and accorded
85 the weight of regulations under § 58.1-205 of the Code of Virginia.

86 3. That the memorandum of understanding, as defined in § 58.1-422.5 of the Code of Virginia, as
87 created by this act, shall include provisions that require, during the term of the memorandum of
88 understanding, an Internet root infrastructure provider (the provider) to report annually to the
89 Virginia Innovation Partnership Authority and the Secretaries of Commerce and Trade and
90 Finance beginning January 1, 2024, such information as is necessary to demonstrate that the
91 provider is in compliance with the performance criteria set forth in the memorandum of
92 understanding. The annual report shall contain information regarding the new investments made
93 by the provider to satisfy the performance criteria, the anticipated liability of the provider
94 notwithstanding the provisions of this act related to the apportionment of its income, the anticipated
95 liability of the provider pursuant to the apportionment formula under this act, and other such
96 financial information as the Secretaries of Commerce and Trade and Finance deem necessary to
97 demonstrate that the provider will be able to fulfill the obligations of the memorandum of
98 understanding.

99 4. That the memorandum of understanding, as defined in § 58.1-422.5 of the Code of Virginia, as
100 created by this act, shall contain a provision that, should the Internet root infrastructure provider
101 be out of substantial compliance with the performance criteria set forth in the memorandum of
102 understanding for three consecutive years, then the memorandum of understanding shall terminate.
103 If the memorandum of understanding is terminated pursuant to this enactment and such provision,
104 the Secretary of Finance shall notify the Department of Taxation, and the Internet root
105 infrastructure provider shall thereafter no longer be eligible to utilize the apportionment formula
106 set forth in subdivision B 3 of § 58.1-416 of the Code of Virginia, as amended by this act.

107 **5. That any person to whom tax information is divulged pursuant to this act shall be subject to the**
108 **prohibitions and penalties set forth in § 58.1-3 of the Code of Virginia as though he were a tax**
109 **official.**

110 **6. That the provisions of this act shall not become effective until a memorandum of understanding,**
111 **as defined in § 58.1-422.5 of the Code of Virginia, as created by this act, is signed. If such**
112 **memorandum of understanding is not signed by December 1, 2023, the provisions of subsection B 3**
113 **of § 58.1-416 of the Code of Virginia, as amended by this act, shall not be applicable in any taxable**
114 **year beginning on or after January 1, 2023.**

115 **7. That the Virginia Innovation Partnership Authority shall provide, upon signature, a copy of any**
116 **memorandum of understanding, as defined in § 58.1-422.5 of the Code of Virginia, as created by**
117 **this act, to the Chairmen of the House Committee on Finance, the House Committee on**
118 **Appropriations, and the Senate Committee on Finance and Appropriations. The provisions of this**
119 **act shall expire if copies of such memorandum of understanding are not delivered by December 31,**
120 **2023.**

121

#